

107
THE MARITIME TRUST FUND ACT OF 1993

Y 4.M 53:103-66

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The Maritime Trust Fund Act of 1993... MERCHANT MARINE

OF THE

**COMMITTEE ON
MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES**

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

H.R. 2380

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO INCREASE THE EXCISE TAX ON THE TRANSPORTATION OF PASSENGERS BY WATER, TO IMPOSE AN EXCISE TAX ON CERTAIN CONTAINERS USED TO IMPORT OR EXPORT COMMERCIAL CARGO, AND TO USE THE REVENUES FROM SUCH TAXES FOR A MODIFIED OPERATING DIFFERENTIAL SUBSIDY PROGRAM UNDER THE MERCHANT MARINE ACT, 1936

OCTOBER 20, 1993

Serial No. 103-66

Printed for the use of the Committee on Merchant Marine and Fisheries



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THE MARITIME TRUST FUND ACT OF 1993

WEDNESDAY, OCTOBER 20, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, DC.

The Subcommittee met, pursuant to call, at 11:15 a.m., in room 1334, Longworth House Office Building, Hon. William O. Lipinski (Chairman of the Subcommittee) presiding.

Present: Representatives Lipinski, Taylor, Schenk, Reed, Stupak, Kingston, and Fowler.

Staff Present: Keith Lesnick, Staff Director; Randy Morris, Legislative Clerk; Fred Zeytoonjian, Counsel; Natalie Hidalgo, Professional Staff; David Honness, Professional Staff; Shelby Mertes, Staff Aid; Melanie Barber, Counsel; Hugh N. Johnston, Minority Counsel. Committee on Merchant Marine staff: Jeffrey R. Pike, Staff Director; John Cullather, Professional Staff; Carl W. Bentzel, Counsel; and Kip Robinson, Minority Counsel.

STATEMENT OF HON. WILLIAM LIPINSKI, A U.S. REPRESENTATIVE FROM ILLINOIS, AND CHAIRMAN, SUBCOMMITTEE ON MERCHANT MARINE

Mr. LIPINSKI. All right, we are ready to go now, so if everyone would take their seats, we will get on with the hearing. Mr. Estes and Mr. Pecquex please take your seats, we will be ready to start here momentarily.

Good morning once again. Today we will hear testimony on H.R. 2380, the Maritime Trust Fund Act of 1993. This is the first time I have held a hearing on a tax proposal. I expect little or no controversy. I also expected little or no controversy at the mark-up this morning. That is what makes life interesting though, you never know what is around the corner.

On June 10th, 1993, I introduced this legislation to fund maritime reform. In recent weeks, several news articles have reported that the administration has proposed this tax to pay for tariff revenue lost by implementing NAFTA.

NAFTA's merits are not in question before this forum. I believe this tax is essential and appropriate for saving the maritime industry.

Americans have supported a United States Merchant Marine since our country's inception. Since 1936, our taxpayers have paid a small amount for an operating-differential subsidy to maintain a U.S. Merchant Marine to protect our Nation's economy and security.

It is time that the foreign cruise vessels doing business in this country pay their fair share of taxes.

The United States Merchant Marine carried our supplies and equipment to the Persian Gulf when a major world oil supply was threatened. The United States Merchant Marine carried lifesaving food and supplies to Somalia. In a future crisis, the United States Merchant Marine will come to the rescue once again.

The United States is facing serious economic challenges. All of us have been asked to sacrifice by paying new taxes and cutting spending to solve national and world economic problems. This revenue bill I am introducing will apply to businesses not subject to these taxes.

The major portion of this tax applies to foreign-owned companies who do not pay U.S. taxes. It is only proper that a multi-million dollar industry pay their fair share of taxes.

I have here an opening statement from Mr. Pickett and without objection, I ask unanimous consent that it be placed in the record. So ordered. I now stand ready to recognize anyone else who has an opening statement.

Mr. Reed.

[The statement of Owen Pickett follow:]

STATEMENT OF HON. OWEN PICKETT, A U.S. REPRESENTATIVE FROM VIRGINIA

I want to thank Chairman Lipinski for holding a hearing on the critical subject of providing funding for maritime reform.

The Chairman is to be commended for taking the initiative to find funding sources for maritime reform legislation reported by the Merchant Marine Committee. Without an identified funding source neither this nor the previous two Administrations have been willing to allocate the resources needed to implement a national maritime program.

I welcome each of our guests here today, who represent different facets of the maritime industry.

This Subcommittee has shown concern in the past about the cumulative impact that increased taxes and fees have on the maritime industry. It is important to understand the effect on the competitive position and future health of our maritime industries. Being one of the members whose district is a part of the Port of Hampton Roads, I am particularly sensitive to the effect that increased fees or taxes will have on our maritime transportation industry. The revenue proposals set forth in H.R. 2380 and their effect on the industry are matters on which we need to be fully and thoroughly informed. I look forward to the testimony of today's witnesses.

STATEMENT OF HON. JACK REED, A U.S. REPRESENTATIVE FROM RHODE ISLAND

Mr. REED. Thank you, Mr. Chairman. Thank you for holding this hearing on H.R. 2380.

I believe H.R. 2380 is a step forward, but I am concerned about one possible unintended impact, and that is on U.S. built, U.S. flagged cruise ships with foreign ports of call, such as the American Canadian Carribean Line, which has been located in Warren, Rhode Island for 30 years.

At the markup of this bill, I will introduce an amendment that will attempt to exempt these types of operations from some of the impacts of this legislation.

I would like to submit a statement for the record and indeed, Mr. Chairman, your letter to me indicating your principal support for a

notion of trying to provide some relief for these particular cruise lines, and I thank you, Mr. Chairman.

Mr. LIPINSKI. I thank you, Mr. Reed. I also say we will accept your statement for the record without objection and that is so ordered.

[The information follows:]

STATEMENT OF HON. JACK REED, A U.S. REPRESENTATIVE FROM RHODE ISLAND

Mr. Chairman, I want to thank you for all of your work to revitalize America's Merchant Marine, and for affording Members the opportunity to discuss the Maritime Trust Fund Act of 1993.

Like you, Mr. Chairman, I would like to see Congress pass legislation that assists our nation's Merchant Marine and our shipyards this year. However, I am concerned that H.R. 2380, a possible funding vehicle for such efforts, may have an unintended impact on the limited number of U.S.-built, U.S.-flagged cruise ships with foreign ports of call.

Indeed, Rhode Island is home to such a business, the American Canadian Caribbean Line, which has been located in Warren for thirty years. The founder of ACCL, Mr. Luther Blount, has stayed in business through innovation, quality, and sheer determination. All the while he has proudly kept ACCL an American company, maintaining jobs in his shipyard and on his vessels. Unfortunately, as we all know, foreign cruise lines have avoided U.S. taxes and increased their share of the cruise market to the detriment of American cruise lines.

For this reason, when the Subcommittee marks-up this legislation, I plan to offer an amendment that would exempt true-U.S. cruise lines like ACCL from the provisions of H.R. 2380. I am pleased to note that Chairman Lipinski has voiced his support for such an amendment, and I ask unanimous consent to include a copy of the Chairman's letter in the record of this hearing.????

Mr. Chairman, I want to thank you and your staff for working with me on this issue and I look forward to continuing these efforts. Thank you.

Mr. LIPINSKI. Do we have any other opening statements at the present time? We have a statement that I wish to place in the record from the Ranking Minority Member of the full committee, Mr. Fields.

Without objection, we will place that in the record and that is also so ordered.

[The statement of Jack Fields follows:]

STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS, AND RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, I would like to compliment you and your tireless efforts and leadership on behalf of maritime reform legislation.

Since coming to Congress in 1981, I have strongly supported the revitalization of our merchant marine and I have been increasingly frustrated at Congress' inability to provide the resources necessary to ensure a fleet of U.S.-flag vessels. While H.R. 2380 may not be a perfect bill, it does represent one possible approach for raising the revenues necessary to fund the operating assistance program envisioned by the Maritime Security and Competitiveness Act.

The new fees proposed by the Maritime Trust Fund Act would increase costs in two areas of maritime transportation. The first would be a five percent surtax to be levied on each passenger vessel ticket purchased in the United States on both so-called cruises-to-nowhere and international trips. Presumably, the passenger vessel tax would be passed on to the individuals purchasing tickets.

The second fee would involve a \$15 tax on all 20-foot equivalent containers imported into or exported from the United States. This container tax would be paid by the shippers who own the goods being moved in commerce.

Mr. Chairman, under your bill, revenues from both taxes, which have been estimated at about \$250 million per year, would be deposited into a maritime trust fund to be used to finance the new Maritime Security Fleet Program (MSF) established by H.R. 2151.

While I am sure H.R. 2380 will spark a lively debate, I compliment you for your courage in offering this legislation and am anxious to hear from our distinguished

witnesses. It is my hope that they will not only tell us if H.R. 2380 is an appropriate mechanism to raise revenues, but also whether there are other alternative funding sources.

Mr. Chairman, again, I compliment you for holding this hearing and I look forward to our continued efforts in the days ahead.

Thank you, Mr. Chairman.

STATEMENT OF HON. GENE TAYLOR, A U.S. REPRESENTATIVE FROM MISSISSIPPI

Mr. LIPINSKI. Does anyone else have an opening statement? All right.

Mr. TAYLOR. Mr. Chairman, I just want to commend you——

Mr. LIPINSKI. Mr. Taylor.

Mr. TAYLOR. I want to commend you for doing what should have been done many years ago and that is asking those people who benefit from ports, from the channels that are dredged by the Corps of Engineers, whose vessels are protected by the Coast Guard at dock side and local police at dock side in case they catch on fire and have a disturbance, and asking them to pay a reasonable fee for having access to our markets.

As I said before, it should have been done long ago, but now is better than never.

Mr. LIPINSKI. Thank you, Mr. Taylor.

Our first witness this morning will be Mr. John T. Estes, President, International Council of Cruise Lines.

John, would you give me your last name because I just asked my staff and we were divided on exactly how it was supposed to be pronounced, so if you would pronounce it, perhaps I could learn how you want it pronounced.

Mr. ESTES. Thank you, Mr. Chairman. It is really noncontroversial. It is Estes.

Mr. LIPINSKI. Estes?

Mr. ESTES. Yes, sir.

Mr. LIPINSKI. Thank you. The floor is yours.

STATEMENT OF JOHN T. ESTES, PRESIDENT, INTERNATIONAL COUNCIL OF CRUISE LINES

Mr. ESTES. Thank you, sir. It is a pleasure to be here. It is always a pleasure to appear before you, well, almost always.

I must say with respect to this piece of legislation, we do sincerely appreciate this opportunity to talk with you. I think our biggest job, Mr. Chairman, is to try and hopefully inform the members of the committee about our industry and what we are doing and how we are doing it.

I have a statement which I have offered and I would appreciate being put into the record with your kind permission.

Mr. LIPINSKI. At this time, I ask unanimous consent that your statement be included in the record in its entirety and without objection, that is so ordered.

Mr. ESTES. Mr. Chairman, I would like to make just three brief points in summarizing the statement that has been offered for the record.

First, the reasons for our opposition to this bill. Secondly, the fact that the industry currently is heavily burdened with fees and

taxes in the United States, and third, a few comments about the nature of our industry.

The opposition that we have to the bill, Mr. Chairman, obviously to some extent is rooted in self-interest. I would like to put that aside and put it on the shelf.

What I would rather talk with you this morning about is the policy implications of your bill. It is a serious bill. It is a bill that can cause in our judgment serious economic dislocation throughout the economy of the United States.

We had the Price Waterhouse Company, Mr. Chairman, conduct a serious economic review for us this past year. We didn't do it because we were afraid if we did it, it would be criticized as being not credible. So we hired them and they did it and it is available.

I think we have given you a copy and I think we have given every Member of the committee a copy.

As you may recall, that study concludes that in 1992, this industry, that is to say, the foreign flag cruise industry, created for Americans in the United States 452,000 jobs. That is quite a few. We also paid in wages in 1992 to Americans of \$14.5 billion.

We also paid in taxes, Federal, State and local taxes in the United States \$6.3 billion, but even more important, Mr. Chairman, isn't what happened in 1992. It is what can happen in the future. In the next four years, this industry can create for the United States another 134,000 full-time equivalent jobs. It can pay to the United States another \$4.3—United States citizens another \$4.3 billion in wages, and it can pay to the United States and its instrumentalities, Federal and local, \$2 billion in taxes. That is a big bite.

That is something that is a real contribution to our economy. I don't think it is something that has really been appreciated. People talk about the foreign flag and they say because it is foreign, it is evil, and it doesn't make a contribution. Those people don't pay taxes. They say that it is not creating American jobs.

I hope that we have put that canard to rest, and I hope that in looking at the policy implications of your bill, you will consider what will happen if we place more taxes, more burdens, more financial restrictions on this industry.

I put into my statement, Mr. Chairman, on pages 6, 7, and 8 the large number of fees that we currently pay, and they are all over the lot. We pay the Coast Guard, we pay harbor maintenance fees. We pay all of our fair share.

We have taken the position that we have no objection whatsoever to paying any fee to the United States for a service that is performed for our industry. We are not trying to get away from paying fees levied for the operation of the foreign flag cruise industry.

The nature of the industry, Mr. Chairman, is particularly important. As you well know, it is shipping, and as you know, shipping is mobile. We should not adopt any policy as Americans that will in any way encourage the relocation of this industry. We are making too big a contribution to the economy of the United States.

It would be wrong, it would be bad policy for us to adopt a Federal legislative policy that would hurt that industry. I used to say from time to time, Mr. Chairman, and let me repeat it for you, what we ought to do is water this flower, not pick it.

Let me just say one other thing, Mr. Chairman, about the Merchant Marine. We are, in many respects, the greatest resource for the American Merchant Marine. We have lawyers, we have insurance people, we have ship designers. We are about the only part of the Merchant Marine in the United States that is expanding. Let's keep it expanding.

Finally, Mr. Chairman, in conclusion, one could say, what is wrong with 5 percent? What is 5 percent? Five percent, Mr. Chairman, is the difference between success and failure for a marginal cruise ship operator if they had to absorb the cost. Five percent, Mr. Chairman, is regressive to a modest income earner who takes a \$1,200 cruise. Five percent, Mr. Chairman, is a penalty on millions of Americans.

Thank you.

Mr. LIPINSKI. Thank you.

[The statement of John Estes may be found at end of hearing.]

**STATEMENT OF FRANK PECQUEX, EXECUTIVE SECRETARY-
TREASURER, MARITIME TRADES DEPARTMENT, AFL-CIO**

Mr. LIPINSKI. We will now hear from Mr. Frank Pecquex, Executive Secretary-Treasurer, Maritime Trades Department, AFL-CIO.

After we hear from Mr. Pecquex, then we will have questions for both the witnesses.

Mr. PECQUEX. Thank you, Mr. Chairman. Good morning, Members of the committee, I appreciate the fact that you held this tax hearing, the hearing on the tax legislation after the markup because the room has thinned out and we don't like testifying in support of taxes any more than anybody else does, or in your case, voting for legislation.

Mr. LIPINSKI. I don't like proposing them either.

Mr. PECQUEX. I understand that, but we thank you and other Members of the committee for doing just that, because this is not simply just a tax bill.

It is inexorably linked with H.R. 2151, which we consider a very vital piece of legislation, the Maritime Security and Competitiveness Act, which we think is essential to our maintaining a maritime industry in this country, and I might say that we feel that an industry has to be maintained, not so much because of sentimental historical reasons, because this industry has been around since the revolutionary times, but more importantly because it has represented an integral part of the Nation's growth, both as an economic and a military power over the years, and just looking around the world today, I think everybody will agree that we have too many hot spots that can be—flare-up at any time, and sensing that, we don't know what the demands will be on the United States in terms of military sense, or even what impact any of these flare-ups might have in terms of our economic well-being.

And we think because of this instability, that it would be foolish at this time to turn over our maritime interests or our maritime industry to foreign control, and that is basically what we will be doing if we don't pass H.R. 2151, and although that is not the subject of the hearing, it is basically the authorizations bill for a program, as H.R. 2380 is the appropriations bill for that program.

But we think that the economic benefits that can be derived go beyond the maintenance of a strategic sealift manpower pool. The bill, 2151, also contains provisions that, although not funded by the legislation at hand, will definitely have an impact on maintaining this country as an industrial power.

We believe that H.R. 2380 is a reasonable levy, and I think we will have honest disagreements between ourselves and the affected parties, but I look at this somewhat differently than perhaps the cruise industry does.

Since it is a passenger tax basically, I think that the ultimate person who is affected will be the consumer, and that will be the prospective passenger aboard one of the vessels.

I don't think that this is necessarily a corporate tax. I look at the companies as more a conduit for the government to collect taxes, just as it does on other modes of transportation, and certainly, as we all know, that it is unpopular to offer taxes, but sometimes economic conditions in a country dictate that they be imposed.

I woke up yesterday morning to find out that any time I leave or arrive at Dulles Airport, I am going to have to pay a \$3 fee now for the next seven-and-a-half years so that the necessary improvements and modernization of Dulles Airport can take place. I live in Northern Virginia. I use Dulles Airport. I don't like it, but it has a benefit that I think is important.

Mr. LIPINSKI. I happen to think that is a superb tax on the airlines because it happened to be my bill that put that tax on them.

Mr. PECQUEX. I wasn't aware of that fact, but congratulations, and respecting your position as Chairman of this subcommittee, I will willingly pay that fee.

But I think what is important is, is there a demonstrable benefit that is going to be derived from the imposition of a levy on passengers? And I think that there will be.

We are, as I pointed out, going to be able to maintain a domestic maritime industry in a line of trades. The legislation, 2151, is actually going to perhaps save the government money in the long run. As part of this, you will have cargo preference rates that will be set more on commercial terms than on government terms that are done right now, so there may be savings for the government in the long run.

The impact on the industry, I can't speak to it to the extent that Jack Estes can, but from my vantage point, I think it is going to be one that is going to be equitable. The levy is going to be spread across the board equally to all carriers. No one will escape it, so the operating costs should not be affected.

His industry, the passenger ship industry that Mr. Estes represents, is one that we envy. It has continued to grow beyond expectations. It seems to be recession proof. It grows well in times of economic upswing as well as economic downturn, and I think that that is something that we should consider.

I don't think that the passenger fee is going to be a—is going to represent a critical impact on their ability to compete and to operate in the future.

In terms of the critical test, and I think that this is where we have to look at it and judge it on its merits, is what will the impact be on the domestic market. And I look at the passenger, as I stated

earlier, as the critical element of this tax. The likely traveler is, according to information I have gleaned from the newspapers and studies and reports that I have seen over the years, is normally in a better than average economic means, and I think that is critical.

It is an equitable imposition of taxes, and I think it is also reasonable, and I think that we all grow accustomed, as we travel to your great city, Chicago, as I did earlier this year, or to San Francisco or to New York to my home state, you will see that there are all sorts of local charges that I pay in addition to the room rate, and I don't say that it is—I still go to those hotels because I have to because I have business or I am on vacation, and I think that the American people, once they understand what this levy is going to do, and that is basically help maintain a secure Nation economically and militarily, that they will understand it and that they will accept it, and I want to thank you in closing, Mr. Chairman, not just you, but other Members of the committee who have continued to work without failure and without—with much frustration to devise means to help us support a domestic maritime industry.

Thank you.

Mr. LIPINSKI. Thank you very much.

[The statement of Frank Pecquex may be found at end of hearing.]

Mr. LIPINSKI. Questions for our two witnesses.

Mr. Taylor.

Mr. TAYLOR. Mr. Estes, I have not had the opportunity to read your entire statement, but quite frankly, most of page 7, you are talking about taxes on airline tickets.

Now, I realize that in this list you would like someone who is casually reading this to think that these are taxes that are being paid on foreign flag vessels in this country, but they are not. They are taxes on airline tickets, and for the record, I would like to make this very clear, that page 7 of Mr. Estes's testimony is talking about taxes on airline tickets and not taxes on a foreign flag-ship.

I would like to go on to say that, quite frankly, Mr. Estes, I find some of your testimony a bit shaky. You talk about the jobs that you have created, but since over 80 percent of your customers are American and over 90 percent of those itineraries are American, at least one of the ports that, quite frankly, I think even more of the benefits ought to be coming to this country, and if—I think if Mr. Lipinski's bill becomes law and it becomes one less escape hatch for someone who wants to reflag foreign, then it might just be one more incentive for someone to buy an American flag vessel, put Americans on board.

And incidentally, Mr. Estes, those who say that you cannot be profitable and have Americans on board, I would welcome down to the Mississippi Gulf Coast today to visit any of our nine dock-side cruise ships which are operating profitably with nothing but Americans working on board, each of which were built in America.

Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you, Mr. Taylor. Do we have any other questions at this time?

Mrs. Fowler.

Mrs. FOWLER. Thank you, Mr. Chairman.

First I would like to, on behalf of Mrs. Bentley, who had to leave, she asked me if, for the record, she could submit questions for these witnesses at a later date.

Mr. LIPINSKI. I am sure these witnesses would be happy to answer any question Mrs. Bentley would submit to them and without objection, that is so ordered.

Mrs. FOWLER. Thank you, Mr. Chairman, and then on my behalf, I would like to ask a couple questions, make a couple statements if I could.

Mr. LIPINSKI. The floor is yours.

Mrs. FOWLER. I do have some deep concerns about this tax, and I was interested that—and I will probably mispronounce your name, Mr. Pecquex.

Mr. PECQUEX. Pecquex.

Mrs. FOWLER. Made the comment, which I agree, that this is not a tax on the corporations that own the ships. This is a tax on the consumers, on the passengers that are going to be traveling on these ships.

Eighty-five percent of the passengers on these ships are Americans. Most of them are Americans from middle income families. They have saved to take a recreational trip, and you are imposing another tax on middle income Americans to pay for a program that is not related to recreational, you know, shipping.

I totally support the maritime security fleet. I am a cosponsor of that bill. I think we need to move forward with that, but to put a tax on middle income Americans who have saved to take a vacation in order to pay for this fleet, I have some real problems with that, and I think Mr. Estes, you know, his testimony pretty much outlines some of the questions with that.

I also represent a district that has a large port, and I know that the American Association of Port Authorities has some deep questions and concerns about both of these taxes and the impact that they are going to have on our ports, and I hope that at some later date we are going to be maybe hearing from the port authorities or looking into that because I am concerned, because in my district, I know our port is a great producer of jobs and revenue, and if these type of regressive taxes are going to lessen the use of these ports, then I think this is something we need to weigh in the balance too.

Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you.

Ms. Schenk.

Ms. SCHENK. Thank you, Mr. Chairman.

I must say, I have real mixed feelings about this, echoing some of what Mrs. Fowler has just indicated.

I too represent a port city, unfortunately not as big a port business as Mrs. Fowler has, but we always hope for more port business, and in the port, we have had a list of various kinds of users fees.

Mr. Estes, I have a question for you. You made a statement about the State, Federal and local taxes that are paid. Could you just elaborate a little bit for me on the nature of those taxes?

Mr. ESTES. Right. What we have done is to separate out the contribution we make to the United States by what the Price Water-

house economists call a core industry contribution, and then an expenditure-induced contribution.

With respect to the core industry contribution, which is obviously the smaller one, there were, of the 134,000 jobs created in that industry, in that portion of the analysis, there were \$1.5 billion paid in taxes from the core, and that included port taxes and fees of \$10 million, personal income taxes of \$785 million, FICA taxes of \$544 million, and corporate income taxes of \$215 million, and then on top of that, Ms. Schenk, there were State and local taxes of another \$520 million.

The expenditure-induced portion, and that is the ripple effect that the economists look at after the core expenditure has been made, was similarly broken down, and without giving you the precise points, I will provide your staff with a copy of the whole study.

There were, in 1992, \$3.3 billion of expenditure-induced taxes. Of those, corporate taxes were \$440 million and personal income taxes of \$1.7 billion. That is all created either directly or indirectly from the foreign flag cruise industry.

Now, I might just, if I could, may I respond to Congressman Taylor's reference to airline tickets? May I respond? That is put in there because when a passenger buys a ticket, in almost every case, it includes air, and that portion of the fee then that is charged goes into the ticket price. That is why it is put in there.

It is not a tax on the company; it is a tax on the American who takes the cruise—and he would pay that admittedly regardless if he were going to Mississippi for a convention or Miami or San Diego for a cruise. Sorry to divert.

Ms. SCHENK. I have a follow-up question. You also made reference to a willingness to entertain various user fees. Would you elaborate on that, the kind of user fees you would envision the company would pay?

Mr. ESTES. I am sorry?

Ms. SCHENK. That the companies would pay, the lines would pay.

Mr. ESTES. Right. Right now, for example, we pay the total cost of the Center for Disease Control examinations of our ships by the Public Health Service out of Atlanta. That costs about 900 some thousand dollars a year—I am sorry, \$990,000—yes, that is about right.

That amount is paid by us because, in our judgment, we were having a great deal of difficulty working with the CDC in developing a workable sanitation inspection program. We will, of course, pay Coast Guard user fees. We pay harbor maintenance fees. We pay wharfage fees, dockage fees.

The General Accounting Office put out a study in 19—in March of 1993 that listed all of the fees that we pay and I believe in the cruise line industry, there was approximately 100 some fees that we pay.

Now, the statement that I made was that we have a policy, and it is an industry policy, of not resisting or contesting fees that are levied against the industry that benefit the industry for which the industry receives the benefit.

Clearly if a port or a city or Federal instrumentality is charging for a service, then we should pay for that and we agree with that and that is our policy.

This fee, however, would be to finance, as laudable as it might be, the operating subsidies for cargo ships, which is something that is not benefiting us.

Ms. SCHENK. If I could, Mr. Chairman, just a moment in conclusion because I have real mixed emotions.

I fully support what you are trying to do with the intent of this bill, but I have now seen a number of these marginal overnight cruise ships that go from Los Angeles, San Diego, Ensenada literally go under because there is such a thin margin, so I am concerned about an extra 5 percent levy on the ticket, so I am just going to have to think this through and hear more about it, and thank you very much.

Mr. LIPINSKI. Thank you for your questions.

Mr. Taylor, was there something else you wanted? Did you want the floor once again?

Mr. TAYLOR. Mr. Estes, I would like to ask for a clarification. In your statement just now, you said how much did the cruise lines pay in corporate taxes in America last year?

Mr. ESTES. No. The analysis was the industry-generated corporate taxes. I don't have an analysis of what each member paid.

Mr. TAYLOR. Why is that, sir?

Mr. ESTES. The foreign flag cruise industry—well, those that are publicly traded, we could get from their annual reports. I think Carnival is publicly traded and Royal Caribbean may be, but what my study did was to indicate for you the corporate taxes that were generated in the United States by this industry.

Mr. TAYLOR. Mr. Estes, my question was, what did the corporations pay themselves?

Mr. ESTES. I don't have a member-by-member analysis of that.

Mr. TAYLOR. Isn't it true, Mr. Estes, that one of your members, Carnival Cruise Lines, brags in their Wall Street prospectus that they are exempt from American corporate taxes?

Now, I have got to believe, if Carnival is exempt, then they are all exempt. Is that not an accurate statement?

Mr. ESTES. I wouldn't have any way of knowing. I know, for example—

Mr. TAYLOR. Would you tell me if I was wrong?

Mr. ESTES. May I finish, sir?

Mr. TAYLOR. Sure.

Mr. ESTES. One of our lines is owned by an American company, the Dial Corporation. I have no idea what their tax—I didn't go into the member-by-member tax analysis, Mr. Taylor.

Mr. TAYLOR. But we have a total industry that is anywhere from an \$8 to \$10 billion industry, 80 percent of those revenues come from Americans, and they don't have to pay a penny in corporate tax, do they?

Mr. ESTES. I can't account for that. I don't know.

Mr. TAYLOR. Please tell me if I am wrong.

Mr. ESTES. I can't tell you whether you are right or wrong.

Mr. TAYLOR. I think I am right.

Mr. ESTES. All I can tell you is this industry generated for the United States Treasury a total of \$4.3 billion in taxes last year.

Mr. TAYLOR. Now, if there was an American flag vessel tied up just across the dock doing the exact same thing, they would have to pay corporate taxes, wouldn't they?

Mr. ESTES. I can't answer that.

Mr. TAYLOR. They would.

Thank you, Mr. Estes.

Mr. ESTES. I don't know what their tax profile may be. They have exemptions, deductions, whatnot.

Mr. LIPINSKI. Thank you, Mr. Taylor.

I have questions for both of our witnesses, which I am going to read into the record at the present time. We have to go over and vote, and I am not going to ask you to stay while we go over to vote and come back because I am the last one to ask the questions, but I would like to make sure these questions are submitted back in a reasonable amount of time to the subcommittee.

Mr. Pecquex, the questions I have for you are as follows: H.R. 2380 is intended to fund this committee's maritime reform plan. Could you tell the subcommittee what would happen to the Nation's maritime employees should it fail to become law?

Also, Mr. Pecquex, do you believe that the legislation will provide enough support to maintain a successful U.S. Merchant Marine?

And Mr. Estes, what percentage of your cruises leave from U.S. ports? What percentage of your passengers are Americans? What percentage of your crews are U.S. citizens? What were your profit margins last year?

How many of the vessels in your organization are registered under the U.S. flag? Do you pay your crews the U.S. minimum wage? Have two of your members, Carnival and Premiere, changed their corporate structure so that they no longer meet the U.S. citizens' own criteria and are therefore not subject to requisition in time of a declared national emergency? What are the safety standards that are required on your vessels?

Do you require your crews to speak a common language? Do you pay U.S. Government taxes? If so what kind and how much? Can the U.S. Government requisition your vessels in a time of national emergency? Do you represent to potential investors that you do not pay U.S. corporate taxes?

And that is all the questions I have for both of you gentlemen. I would appreciate answers to those in a very reasonable amount of time.

I thank you very much for being here this morning. I thank you for your testimony, and we stand adjourned.

[Whereupon, at 11:50 a.m., the Subcommittee was adjourned; and the following was submitted for the record:]

103D CONGRESS
1ST SESSION

H. R. 2380

To amend the Internal Revenue Code of 1986 to increase the excise tax on the transportation of passengers by water, to impose an excise tax on certain containers used to import or export commercial cargo, and to use the revenues from such taxes for a modified operating differential subsidy program under the Merchant Marine Act, 1936.

IN THE HOUSE OF REPRESENTATIVES

JUNE 10, 1993

Mr. LIPINSKI introduced the following bill; which was referred jointly to the Committees on Ways and Means and Merchant Marine and Fisheries

A BILL

To amend the Internal Revenue Code of 1986 to increase the excise tax on the transportation of passengers by water, to impose an excise tax on certain containers used to import or export commercial cargo, and to use the revenues from such taxes for a modified operating differential subsidy program under the Merchant Marine Act, 1936.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Maritime Trust Fund
5 Act”.

1 **SEC. 2. MODIFICATIONS IN EXCISE TAX ON TRANSPOR-**
2 **TATION OF PASSENGERS BY WATER.**

3 (a) INCREASE IN AMOUNT OF TAX.—Subsection (a)
4 of section 4471 of the Internal Revenue Code of 1986 is
5 amended to read as follows:

6 “(a) IN GENERAL.—There is hereby imposed a tax
7 equal to 5 percent of the amount paid by each passenger
8 for a covered voyage.”

9 (b) MODIFICATION TO COVERED VOYAGES.—Clause
10 (i) of section 4472(1)(A) of such Code is amended by in-
11 serting before the comma “and which has a port of call
12 not located in the United States or a possession of the
13 United States”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall take effect on the date of the enactment
16 of this Act.

17 **SEC. 3. EXCISE TAX ON CONTAINERS USED TO IMPORT OR**
18 **EXPORT COMMERCIAL CARGO.**

19 (a) IN GENERAL.—Chapter 36 of the Internal Reve-
20 nue Code of 1986 (relating to certain other excise taxes)
21 is amended by inserting after subchapter B the following
22 new subchapter:

23 **“Subchapter C—Containers Used**
24 **To Import or Export Cargo**

“Sec. 4476. Imposition of tax.

1 **“SEC. 4476. IMPOSITION OF TAX.**

2 “(a) GENERAL RULE.—There is hereby imposed a
3 tax on any taxable container use.

4 “(b) AMOUNT OF TAX.—The amount of the tax im-
5 posed by subsection (a) on any taxable container use is
6 \$15 per 20-foot equivalent unit of the container.

7 “(c) LIABILITY AND TIME OF IMPOSITION OF TAX.—

8 “(1) LIABILITY.—The tax imposed by sub-
9 section (a) shall be paid by the shipper.

10 “(2) TIME OF IMPOSITION.—Except as other-
11 wise provided by regulations, the tax imposed by
12 subsection (a) shall be imposed—

13 “(A) at the time of exportation in the case
14 of a use described in subsection (d)(1), and

15 “(B) at the time of entry in the case of a
16 use in subsection (d)(2).

17 “(d) TAXABLE CONTAINER USE.—For purposes of
18 this section, the term ‘taxable container use’ means—

19 “(1) the loading of a container containing com-
20 mercial cargo on a commercial vessel at a port if—

21 “(A) such cargo is being exported from the
22 United States, and

23 “(B) such vessel is to provide the transport
24 from the United States, and

1 “(2) the unloading of a container containing
2 commercial cargo from a commercial vessel at a port
3 if such cargo is being entered into the United States.

4 “(e) OTHER DEFINITIONS.—For purposes of this
5 section—

6 “(1) IN GENERAL.—The terms ‘commercial
7 cargo’, ‘commercial vessel’, and ‘port’ have the re-
8 spective meanings given such terms under section
9 4462.

10 “(2) UNITED STATES.—The term ‘United
11 States’ includes the possessions of the United
12 States.

13 “(f) SPECIAL RULES.—Rules similar to the rules of
14 subsections (d), (e), (f), (h), and (i) of section 4462 shall
15 apply for purposes of this section.”

16 (b) CLERICAL AMENDMENT.—The table of sub-
17 chapters for chapter 36 of such Code is amended by in-
18 serting after the item relating to subchapter B the follow-
19 ing new item:

 “Subchapter C. Containers used to import or export cargo.”

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall take effect on January 1, 1996.

22 **SEC. 4. MARITIME TRUST FUND.**

23 (a) IN GENERAL.—Subchapter A of chapter 98 of the
24 Internal Revenue Code of 1986 (relating to trust fund

1 code) is amended by adding at the end thereof the follow-
2 ing new section:

3 **“SEC. 9512. MARITIME TRUST FUND.**

4 “(a) CREATION OF TRUST FUND.—There is estab-
5 lished in the Treasury of the United States a trust fund
6 to be known as the ‘Maritime Trust Fund’, consisting of
7 such amounts as may be appropriated or credited to such
8 Trust Fund as provided in this section or section 9602(b).

9 “(b) TRANSFERS TO TRUST FUND.—

10 “(1) IN GENERAL.—There are hereby appro-
11 priated to the Maritime Trust Fund amounts equiv-
12 alent to the net revenues received in the Treasury
13 from the maritime taxes.

14 “(2) NET REVENUES.—For purposes of para-
15 graph (1), the term ‘net revenues’ means the
16 amount estimated by the Secretary based on the ex-
17 cess of—

18 “(A) the maritime taxes received in the
19 Treasury, over

20 “(B) the decrease in the tax imposed by
21 chapter 1 resulting from the maritime taxes.

22 “(3) MARITIME TAXES.—For purposes of this
23 subsection, the term ‘maritime taxes’ means—

24 “(A) the taxes imposed by section 4471
25 (relating to transportation of passengers by

1 water) to the extent the taxes received in the
2 Treasury under such section exceed the amount
3 that the Secretary estimates would have been
4 received under such section without regard to
5 the amendments made by the Maritime Trust
6 Fund Act, and

7 “(B) the taxes imposed by section 4476
8 (relating to containers used to import or export
9 commercial cargo).

10 “(c) EXPENDITURES FROM TRUST FUND.—Amounts
11 in the Maritime Trust Fund shall be available, as provided
12 in appropriation Acts, only for purposes of making ex-
13 penditures to carry out any law which is substantially
14 similar to the title IV of the Merchant Marine Act, 1936
15 (46 App. U.S.C. 1171) proposed to be added by H.R.
16 2151 (The Maritime Security and Competitiveness Act of
17 1993) of the 103d Congress, as introduced.”

18 (b) CLERICAL AMENDMENT.—The table of sections
19 for such subchapter A is amended by adding at the end
20 thereof the following new item:

“Sec. 9512. Maritime Trust Fund.”

ONE HUNDRED THIRD CONGRESS

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CYNTHIA M. WILKINSON

U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, DC 20515-6230

September 16, 1993

The Honorable Jack Reed
 1510 Longworth HOB
 Washington, D.C. 20515

Dear Jack:

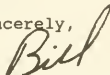
I am writing in response to your August 23rd letter concerning H.R. 2380, the Maritime Trust Fund Act of 1993. I understand your concern that the tax on passenger voyages would adversely affect U.S. cruise lines.

When I drafted the legislation I was careful to exclude the majority of U.S.-flag vessels from the five percent voyage tax. The tax will only apply to cruises that "have a port of call not located in the United States or a possession of the United States." Almost all U.S.-flag cruise vessels operate exclusively within the United States. Your constituent, Mr. Blount is one of only a few U.S. operators that operates cruises to foreign destinations.

I suggest that you offer a waiver amendment to exempt Mr. Blount's ships when the subcommittee takes action on the tax. We believe that the cruise tax provision is a sound one, and should still be implemented. An amendment to the bill would allow us to raise the needed revenue without taxing U.S.-flag cruise operations.

I thank you for sharing your concerns with us. We would be pleased to help you resolve this matter. Please feel free to contact me or my staff at the Subcommittee on Merchant Marine if we can be of assistance.

Sincerely,



William O. Lipinski
 Chairman, Subcommittee on
 Merchant Marine



Statement of

The International Council of Cruise Lines

Before the

Subcommittee on Merchant Marine

of the

House Merchant Marine and Fisheries Committee

Regarding H.R. 2380

October 20, 1993

Carnival Cruise Lines

Celebrity Cruises

Commodore Cruise Lines

Costa Cruise Lines NV

Crystal Cruises Inc.

Cunard Line Ltd.

Dolphin Cruise Line

Epirotiki Lines Inc.

Fantasy Cruises

Holland America Line

Norwegian Cruise Line

Premier Cruise Lines

Princess Cruises

Royal Caribbean Cruises Ltd.

Royal Cruise Line

Royal Viking Line

Sun Line Cruises

Windstar Cruises

Mr. Chairman, members of the subcommittee, my name is John T. Estes. I am President of the International Council of Cruise Lines (ICCL), a non-profit industry association comprised of companies engaged in the overnight passenger cruise line business. On behalf of the 20 member lines in ICCL, I express strong and unanimous opposition to H.R. 2380. We oppose H.R. 2380 because it will hurt the U.S. economy, cost the jobs of many Americans, and unfairly slap a massive and regressive sales tax on the vacations of American taxpayers.

The ICCL membership consists of foreign-flag passenger cruise vessels, all of which call either frequently and routinely or, for some only occasionally, at United States ports. The shares of some of these companies are traded on U.S. stock exchanges and others are not. We are an international organization and, as such, concerned with legislative and regulatory developments not only in the United States, but in other countries as well. Our ships cruise nearly everywhere. We seek equitable and fair regulatory, economic, and legislative jurisdictions from which to operate. We represent about 90% of the worldwide, deep-sea, lower berth cruise capacity which consists of nearly 80,000 berths and more than 28,000,000 cruise days on a full year basis. Many of our passengers are Americans who board our ships in foreign ports as well as United States ports. Although our members' ships fly foreign-flags, many of the employees of ICCL members are Americans and many of our member companies have their administrative offices in the United States.

I

**THE FOREIGN-FLAG CRUISE INDUSTRY IS A MAJOR
CONTRIBUTOR TO THE UNITED STATES ECONOMY**

A major research study to define the cruise industry's economic contribution to the United States -- information frequently sought by Congress and government agencies -- has been completed by the national accounting firm of Price Waterhouse. The study confirms what we surmised. Based on a factual analysis of cruise line employment records, surveys of passengers and employees, interviews with industry executives, plus federal data from the Commerce and Labor Departments, Price Waterhouse, relying on established methodology, determined the existing, as well as projected economic impact of the cruise industry on this country. Among the study's findings for the year of 1992:

- * **The cruise industry created 450,166 jobs.** This includes 63,168 core sector jobs and 71,612 supplier sector jobs, for a total direct impact of 134,780 jobs. Expenditure-induced (ripple effect) jobs numbered 315,386 for a total economic impact of 450,166 jobs. These are full-time equivalent jobs, not part-time jobs, in many areas of the economy including ports, travel agencies, airlines, agricultural, and hotels.

- * The industry paid more than \$14.5 billion in wages to United States employees. The breakout is \$2.2 billion in core sector wages and \$2.3 billion in supplier sector wages, for a total direct impact of \$4.6 billion in wages. Expenditure-induced wages were an additional \$9.9 billion, for a total impact of more than \$14.5 billion.
- * The total tax impact of the cruise industry is \$6.3 billion in federal, state, and local taxes. Cruising generated \$519.6 million in state and local taxes and \$1.6 billion in federal taxes, for a direct impact of \$2.1 billion in taxes. Expenditure-induced taxes were \$944.6 million for state and local governments, \$3.3 billion in federal taxes.

Price Waterhouse reported that of the \$20.8 billion economic impact in the United States, seven continental United States port cities -- Miami, Los Angeles, New York, Port Canaveral, Fort Lauderdale, Seattle, and Tampa -- shared \$2.7 billion. The other \$18.1 billion economic impact is spread throughout the economy but targeted to a broad cross section of industries and businesses. For example, in 1992 some of the payments made directly to principal suppliers to the cruise lines in the United States were:

- * Airlines - \$653.5 million
- * Travel Agents - \$584.3 million

- * Marketing/Advertisers - \$340.9 million
- * Food and Beverage - \$315.7 million
- * Vessel Repair - \$208.4 million
- * Vessel Fuel Suppliers - \$131.9 million

Although these findings are truly impressive, perhaps more impressive and to the point are projections of growth potential this industry has in the United States over the next four years. Price Waterhouse concluded, based on a conservative estimated growth of 6.8% annually, by 1996 the cruise industry will create an additional 134,712 full-time United States jobs, pay \$4.3 billion more in United States employee compensation, and pay \$1.9 billion more in United States taxes.

The foreign-flag cruise industry makes a significant contribution to the United States economy and is poised to contribute even more in jobs, wages, and taxes during the next four years.

II

H.R. 2380 IS AN UNFAIR, REGRESSIVE SALES TAX WHICH WOULD IMPOSE A PENALTY ON MILLIONS OF AMERICANS

Nearly four million Americans benefitted from the vacation cruise experience offered by our industry in 1992. We hope, of course, that millions more will in the future. From

just the state of Illinois alone, Mr. Chairman, there were over 160,000 individuals who travelled on our cruise ships in 1992. The vast majority of our customers are from modest economic backgrounds who have looked forward to a brief and well deserved vacation. That vacation should not be taxed. In the Third District of Illinois there are nearly sixty travel agents who marketed our cruise product in 1992. I am confident they can supply you with first hand data regarding the family and economic profiles of our passengers.

On a \$1,200 cruise vacation ticket this tax would represent an increase in the ticket cost of \$60, or \$120 for a family of two. For many families a \$120 additional vacation expense is not an insignificant amount; an amount which is highly regressive to those with more modest incomes. In addition, some cruise companies are much more marginal operators than others. Such an increase could result in threatening their viability which, of course, would result in the loss of American jobs. The cruise industry is in many respects a new industry with quite dramatic expansion in the past eight to ten years, even though currently it may still be only a relatively insignificant part of the total vacation market. The potential is high for continued if not major expansion based on this growth record and reasonable economic forecasts. We should, Mr. Chairman, encourage that potential and create even greater employment and economic opportunities for Americans rather than impose a penalty in the nature of a tax.

We submit to you, Mr. Chairman, that it is ill-advised to ask our passengers to endure a monetary sacrifice in order to support a subsidy program for the operation of U.S.-flag cargo ships. I am sure that if you should ask them, they would respond that they have worked hard, saved their funds, and are entitled to a well deserved vacation without being burdened with another tax.

III

FOREIGN-FLAG CRUISE LINES CALLING AT UNITED STATES PORTS PAY NUMEROUS USER FEES

Following is a list of the user fees currently paid by cruise lines:

- Harbor maintenance fee to Harbor Maintenance Trust Fund (fee based on value of all cruise tickets sold annually)
- \$3 per passenger IRS excise tax (deposit to general treasury)
- Tonnage tax based on GRT of vessel (collected by Customs)
- USPH vessel inspection program fully funded by cruise industry (Health inspections conducted by the Center for Disease Control)
- \$5 per passenger Immigration fee (certain destinations exempt)
- \$5 per passenger Customs Inspection fee (certain destinations exempt)
- Customs user fee of \$5,955 per vessel per year
- U.S. Department of Agriculture (APHIS) charge of \$369.50 per vessel per trip, annual maximum of \$5,542.50
- Head taxes ranging from \$6 to \$40 at each U.S. port

- \$15 million bond required by FMC for failure to sail insurance and up to \$27 million casualty insurance bond also required by the FMC
- Head taxes at each foreign port
- Lineage fees at each port
- Wharfage fees at each port
- Dockage fees at each port (PCC pilot, tug, and dockage fees)
- California fee of \$200 per vessel for agricultural inspections
- Customs vessel clearance processing fee
- Customs commercial vessel fee
- FCC passenger vessel inspection fee
- Department of Agriculture inspection of \$1.45 per person per voyage

Additional fees are now under consideration by the Coast Guard for various inspections they perform on our vessels. In addition, there are various port taxes and "head fees" assessed by foreign governments from, but not limited to, the Caribbean. Finally, a cruise ticket normally includes air transportation and consequently the price of the cruise ticket also includes the following:

- 8% domestic tax
- \$6 international departure fee
- \$5 surcharge by a number of airlines to cover security costs
- \$2.50 fuel surcharge on domestic flights out of Boston; \$5 out of Chicago; \$2 in Florida; \$2 out of San Juan
- \$1 to \$2 in Denver for airport terminal improvements
- \$2 for flights to the Bahamas and Bermuda
- \$1 to \$4 excess facilities fee imposed by American Airlines
- 10% domestic ticket tax (up from 8%)

- Up to \$6 head tax levied by airports
- Passenger Facility Charge (PFC) of up to \$12 per passenger charged by most major U.S. airports.

An additional fee such as that proposed in H.R. 2380 would add to a ticket price which is already excessively burdened by governmental charges and fees. We are rapidly reaching, if not surpassing, the point of "user fee saturation". Indeed, in the brief period of time since this hearing was announced, vacationers have already been surprised with another proposed governmental fee. The Administration is now considering doubling customs and immigration processing fees paid by international travelers when entering the United States. This tax hike has been proposed to make up for lost tariff revenues under the North American Free Trade Agreement. Clearly, the term "user fee" risks becoming an oxymoron when vacationers are taxed to pay for a trade agreement. This matter is exceptionally important because one should not lose sight of the fact that the cruise line companies are in a highly competitive business not only with one another, but with the vacation and touring industry in general. Each dollar added to the price of a cruise line ticket means that the cruise line becomes less competitive. A Caribbean fleet with ports in Jamaica, Aruba, and elsewhere would not and does not pay the myriad of fees now required at U.S. ports. As the cost of porting in the U.S. continues to rise dramatically it will not be possible to compete effectively with a Caribbean based fleet.

If this tax is passed on to the American vacationer, it is as noted above both regressive and unfair. If for competitive reasons it cannot be passed on and must be absorbed by

a company, it represents a 5% increase in operational costs. Such a major increase in costs could well lead to the laying up of some ships or perhaps the closing down of the line -- either way costing jobs of many Americans. Because cruising represents one of the most dollar value vacation options, many American vacationers may indeed essentially lose their travel vacations. The ultimate result would be, of course, that the average American is deprived of a legitimate vacation alternative and the travel agents are deprived of perhaps the most lucrative commission in their business. It is particularly unfair that this deprivation is for the purpose of financing U.S. cargo ships.

IV

FOREIGN-FLAG CRUISE SHIP OPERATIONS IN THE UNITED STATES ARE AN ESSENTIAL BUILDING BLOCK FOR THE AMERICAN MERCHANT MARINE

We agree with efforts that are underway to enhance and strengthen the American merchant marine if for no other reason than national security considerations. If that laudable goal is to be realized by continuing the current practice of government subsidies for U.S.-flag cargo ships, it would be much more appropriate to place the program in a national defense budget and not on the backs of vacationing Americans.

All reasonable efforts should, we agree, be made to strengthen and expand the American merchant marine. It should be recognized in that effort that the foreign-flag cruise

industry makes a significant contribution to the development of the American merchant marine. The merchant marine of any country consists of many diverse disciplines, such as: purchasing, insurance, legal, training, accounting, managerial, safety, recruiting, etc. The foreign-flag cruise industry in the United States employing thousands of American citizens encompasses all of these disciplines and more. An expanding American merchant marine could draw and should draw heavily from this pool of human resources created by the foreign-flag cruise industry. Economic penalties such as those embodied in H.R. 2380 will serve to reduce this building block rather than expand it as a source for contributing to the development and expansion of the American merchant marine.

V

THE PROPOSED SALES TAX WOULD NOT ONLY BE COUNTERPRODUCTIVE FOR ECONOMIC DEVELOPMENT AND JOB CREATION, BUT IS ALSO ILL-CONCEIVED

As discussed above, the proposed sales tax on cruise ship tickets would jeopardize the existence of more American jobs throughout the economy than it would create or preserve in the U.S.-flag cargo industry. The tax is also flawed, however, because it is aimed at the "amount paid by each passenger for a covered voyage". A cruise ship ticket covers not only the ocean transportation involved in the journey, but also air transportation of the passenger to the port of embarkation, shore side transfers, port charges, travel agent

commissions, hotels, numerous user fees and taxes discussed above, rental cars, and other items. Under H.R. 2380, U.S. Air, for example, Alamo Car Rental, the Bahamian government, Marriott Hotel, and very probably some travel agents from the Third District of Illinois would be directly associated with financing the subsidy for U.S.-flag cargo ships. At first glance, that may seem to be acceptable unless the imposition of this tax is deemed to be a significant factor in depressing the sale of cruise ship passenger tickets -- in our judgment such a result is a certainty.

VI

CONCLUSION

Cruise line companies, regardless of whether they are American or foreign corporations, represent just one segment of the cruise line industry in the United States. It is the United States which is the major beneficiary of this industry, which represents a vast commercial network reaching virtually every community in America. Economic consequences of seeking additional public revenues must be carefully weighed at all times, but particularly now when the economy is in a fragile state. The fact is that ships operating under foreign-flags are moving offshore because of existing and proposed taxes and fees already cutting into what could be an economic benefit to the United States. The foreign-flag cruise lines are nevertheless now responsible for the employment of nearly half-a-million Americans in full-time good paying jobs. We are confident H.R. 2380 is not aimed at punishing that contribution. The objective of a strong U.S.-flag cargo fleet

for commercial and security reasons is a legitimate one, but it should be achieved without jeopardizing the significant economic contributions made to the American economy by the foreign-flag cruise industry. If it is determined to be in the national interest to subsidize U.S.-flag cargo operations -- and we take no position on that -- it should be accomplished in such a way that does not injure the extensive pool of foreign-flag cruise ship resources from which an American merchant marine can be strengthened. It should be accomplished in a way that does not dampen the growth of a healthy and expanding part of the U.S. economy such as the foreign-flag cruise industry. It should be accomplished in a fair, equitable manner -- not in a regressive way by taxing the vacations of Americans and discriminating against those Americans who select a cruise vacation.

We, of course, recognize the frustration of raising funds from limited, scarce sources for well-intentioned purposes. Many businessmen experience that frustration all too frequently. I am confident we would all agree, however, that the solution will not be found in a policy which will foster negative economic dislocation.

We urge that H.R. 2380 be rejected.



MARITIME TRADES DEPARTMENT

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United Automobile, Aerospace and
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Iron Ship Builders, Blacksmiths,
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Joiners of America
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Distillery, Wine and Allied Workers
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International Leather Goods, Plastics
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International Longshoremen's
Association, AFL-CIO
International Association of Machinists
and Aerospace Workers
National Marine Engineers Beneficial
Association
United Mine Workers of America
International Union of Allied, Novelty and
Production Workers, AFL-CIO
Office and Professional Employees
International Union
International Brotherhood of Painters and
Allied Trades
United Pipefitters International Union
Operative Plasterers and Cement Masons
International Association of the United States
and Canada
United Association of Journeymen and
Apprentices of the Plumbing and
Pipe Fitting Industry of the
United States and Canada
Retail, Wholesale and Department Store Union
United Rubber, Cork, Linoleum and Plastic
Workers of America
Seafarers International Union of
North America
Service Employees International
Union, AFL-CIO
Sheet Metal Workers International Association
American Federation of State, County
and Municipal Employees
United Steelworkers of America
United Textile Workers of America
Transportation - Communications Union

REMARKS OF FRANK PECQUEX

EXECUTIVE SECRETARY-TREASURER

MARITIME TRADES DEPARTMENT, AFL-CIO

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

COMMITTEE ON MERCHANT MARINE AND FISHERIES

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

OCTOBER 20, 1993

Mr. Chairman, members of the subcommittee:

My name is Frank Pecquex. I am executive secretary-treasurer of the Maritime Trades Department, AFL-CIO, representing 42 national and international unions with members employed in waterborne and shoreside commerce. I appreciate this opportunity to comment on H.R. 2380, the Maritime Trust Fund Act.

For many years, members of this committee have heard representatives of both labor and management speak out on the vital importance of overhauling our nation's maritime promotion policies and programs. Certainly, the upheaval currently taking place in Russia and other parts of the former Soviet Union indicate that we still live in a very dangerous world, one in which our sealift capacity must never be jeopardized. In addition, the ongoing loss of both seagoing and shipbuilding jobs has severely affected our nation's economy and industrial capacity, and has raised the prospect of shippers having to rely on foreign sources of shipping. Yet for many reasons, the reform effort has lain dormant. Fortunately, while the opportunity for a change in direction is rapidly slipping away, I believe inertia has finally been overcome.

As you know, the 102nd Congress came very close to enacting a maritime reform package last year. Indeed, this committee was instrumental in shaping many of the more innovative proposals that would have helped put the long-ailing U.S. maritime industry back on a path toward recovery, and the MTD supported you strongly in these efforts. Therefore, it was very frustrating to all of us to see this hard work ultimately fail for lack of a funding mechanism.

This year, Congress and the administration are hard at work to develop a comprehensive set of proposals to revitalize the maritime industry. Yet once again, we are faced with the difficult question of funding. I applaud the chairman for taking the initiative in searching for the necessary resources to move ahead this year. Your leadership has stimulated a very important debate and is serving to keep the maritime reform process in motion.

There are currently pending a number of initiatives that, if implemented, will dramatically improve the condition of both the U.S.-flag merchant fleet and our nation's shipyards. Both sectors will be better able to compete in the international marketplace. Just as important, the stable environment created by these reforms will stimulate investment in the capital-intensive maritime industry.

I believe that with rapid and effective action, the decision by some American operators to re-flag may yet be reversed. With a new maritime support program, we can also head off an expanded exodus from the U.S. registry as other U.S. flag carriers feel the need to match their competition.

The future of the U.S. maritime industry hangs in the balance. We cannot allow history to repeat itself this year, and to let so much hard work by so many of us be performed in vain. We must not endanger our economy and national security by failing to implement a program of maritime revitalization.

We believe that H.R. 2380 represents a responsible and equitable way to ensure that the will of Congress in preserving the merchant marine and U.S. shipbuilding capability is adequately financed. Provisions establishing a passenger fee for international travel aboard cruise vessels departing from American ports is a reasonable manner in which to raise federal funds. The affected market, except for the trip itineraries the industry promotes, is domestic. In fact, 125 out of 127 of the deep-sea cruise ships upon which they sail are registered in foreign countries, although 85 percent of cruise passengers are American. The additional passenger charges that are set in place by H.R. 2380, therefore, will not result in a siphoning of market share to foreign interests. Moreover, since cruise vessel passengers are normally drawn from American households of better-than-average economic means, the imposition of a reasonable government fee should not deter prospective vacationers from booking cruises.

There also exists a disparity among the types of U.S.-owned vessels subject to the various taxes and fees imposed by the Federal Government. Last March, the General Accounting Office released a study requested by this panel and the full committee analyzing the various federal assessments levied on commercial vessels. Of the 117 assessments, fully 18 are exclusive to non-passenger vessels, and another 18 to fishing vessels. Only five are earmarked exclusively to passenger vessels. That means no merchandise processing fee -- no fees to support the Automated Tariff Filing and Information System -- no export health or sanitation fees for plants and animals -- no stowage examination fees -- no hazardous substance superfund or oil spill liability taxes.

Perhaps most important, H.R. 2380 would provide appropriators with the vehicle to implement the various revitalization proposals that this committee has worked tirelessly to design and authorize. The budget deficit is on everyone's mind, and rightfully so. The positive reforms contained in H.R. 2151, the Maritime Security and Competitiveness Act, stand little chance of being enacted unless their funding is assured. This legislation helps to satisfy that objective.

The MTD is aware that the tax proposal contained in H.R. 2380 -- indeed, any tax proposal -- is inherently controversial. Whether we call it a user fee, service charge or revenue enhancer, no tax is likely to be greeted warmly. It is also likely that funding will be required from a variety of sources. Yet the American people will accept additional fees if a clear benefit can be demonstrated. It is the responsibility of all of us to educate our fellow citizens -- to make them aware that America's maritime capability must be maintained.

We commend the chairman and the committee for holding this hearing, and for seeking a source of revenue that is fair and balanced. I pledge our assistance in working with the committee and members of the industry to craft a package that all parties can live with, while meeting our national objectives of a strong merchant marine and strong shipyards.



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**TESTIMONY OF THE
 AMERICAN ASSOCIATION OF PORT AUTHORITIES
 BEFORE THE HOUSE SUBCOMMITTEE ON
 MERCHANT MARINE**

ON H.R. 2380, THE MARITIME TRUST FUND ACT OF 1993

OCTOBER 20, 1993

The following testimony regarding H.R. 2380 is offered for the record on behalf of the American Association of Port Authorities (AAPA). Founded in 1912, AAPA represents virtually every U.S. public port agency, as well as the major port agencies in Canada, Central and South America and the Caribbean. This testimony, reflects only the views of the United States delegation of AAPA.

Our Association members are public entities mandated by law to serve public purposes--primarily the facilitation of waterborne commerce and the consequent generation of local and regional economic growth. As public agencies, AAPA members share the public's interest in serving our country's economic, international trade, and national security objectives. Public ports serve as a vital conduit linking the United States to the world marketplace, a critical intersection in the intermodal chain. Ports serve broad hinterlands, connecting farmers, manufacturers and suppliers often thousands of miles inland to international markets sometimes tens of thousands of miles from our shores.

The trade community, especially the maritime trade community, is keenly aware of the need for maritime reform. Maintaining a U.S.-flag fleet is important to both our national security and domestic shipping interests. The question we raise is not the need for maritime reform, rather how do we pay for it. H.R. 2380, while an admirable attempt to cover the cost to maritime reform, introduces yet two more regressive taxes on trade, a \$15 container charge and a five percent tax on cruise passengers. If enacted, these taxes would be added to an already lengthy list of taxes on exports and U.S. cruise passengers.

As the this Subcommittee debates the merits of this proposal, your colleagues in the House Ways and Means Committee the and Senate Finance Committee are considering how to finance the North American Free Trade Agreement (NAFTA). Ironically, one proposal currently on the table is a plan to offset lost tariff revenues by increasing transportation-related fees such as doubling the conveyance fees that Customs now collects on commercial vehicles (now \$5) and on loaded railroad cars (now \$7.50).

In addition, the proposal would double the existing \$5 Customs COBRA fee now collected from arriving airline and cruise passengers and eliminate the exemption for passengers arriving from Canada, Mexico, a U.S. territory or possession and adjacent islands. In addition, the Administration has proposed legislation, H.R. 2836 (Brooks, D-TX) and S. 1333 (Kennedy, D-MA) to increase immigration user fees on air and cruise passengers to fund a program to curb illegal immigration and alien smuggling. These examples involving three separate proposed fees on cruise passengers exemplify the lack of coordination in federal fiscal policy making.

Public port authorities are keenly aware of the fiscal crunch that the federal, state and local governments are experiencing. As the costs of providing government services continues to rise, so does the need to generate additional revenue. While we appreciate the government's need to find new revenue sources, regressive taxes on trade are not the answer. Greater tax burdens on exports will slow, not hasten our economic recovery. A strong merchant marine is in the nation's best interest and serves the nation as a whole; therefore, a new maritime program should be paid for with general revenues not additional unrelated taxes on an already burdened industry.

As you are all well aware, international trade creates tremendous positive economic impacts at the local, regional and national level. According to recent figures from the Maritime Administration, in 1991, commercial port activities resulting from cargo operations created 1.5 million jobs, contributed \$70 billion to the gross national product, provided personal income of \$52 billion, and generated federal taxes of \$14 billion, state and local taxes of \$5.3 billion. The deep draft commercial ports of our country handle over 95 percent of the nation's international trade -- nearly one billion tons of cargo a year worth nearly 500 billion dollars.

The importance of ports to local, state and regional economies cannot be overstated. Exports today are increasingly necessary to the health of America's economy, representing one out of six new U.S. manufacturing jobs. Exports accounted for 90 percent of U.S. GDP growth last year. According to the U.S. Department of Transportation, U.S. ports spent more than \$11.8 billion from 1946-1991 on port and related shoreside infrastructure and are expected to spend more than \$5.5 billion over next five years.

Cruise operations also make a significant contribution to the U.S. economy. A recent study performed by Price Waterhouse on behalf of the International Council of Cruise Lines, the cruise industry generates more than \$14.5 billion in U.S. wages and \$6.3 billion in domestic tax revenues, based on 1992 expenditures. The study projects an additional \$4.3 billion in wages and \$1.9 billion in taxes by 1996, based on an estimated growth of 6.8 percent. The industry currently provides 450,166 U.S. jobs and is expected to add 134,712 full-time jobs to the U.S. economy in the next four years.

With regard to cruise operations, many cruise ports are situated close to foreign

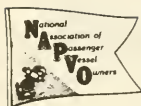
ports which also offer cruise passenger services. In order to avoid the application of the tax, a vessel owner could easily drop the U.S. port of call and embark passengers at the nearby foreign port. For example, cruise passengers that might otherwise use a Florida port could fly to a Caribbean port for embarkation. Cruise ports have made significant investments of public funds in the physical landside facilities which support cruise calls. Those public funds would be wasted and significant economic benefits to the local and regional economies would be lost if we drive the passenger cruise business offshore with increased taxes.

With regard to cargo, taxes on trade are regressive -- taxes cannot be collected on commodities that are not being shipped internationally because they have been priced out of foreign markets or are escaping U.S. taxes by moving across the border to Canadian ports. Not only do our northern tier ports lose cargo to Canada, but, from a national perspective, the projected tax revenue is lost to the U.S. Treasury; cargo which could move efficiently by water is instead imposing a further load on our already overburdened highways and bridges. Worst of all, these taxes are a disincentive to export. Trade taxes, unlike Customs duties, cannot be considered as a "cost of doing business." These taxes undercut our competitiveness in the international marketplace at a time when we should instead be expanding our trade horizons.

In 1990, AAPA helped found the Trade Taxes Group, a coalition of shippers, carriers, commodity groups and other entities interested in waterborne commerce. The Trade Taxes Group was an outgrowth of the fiscal 1991 budget agreement which severely increased and levied new taxes on trade. Two years ago, the Trade Taxes Group came before the Merchant Marine and Fisheries Committee to express our concerns about the danger of increasing taxes on trade. At that time, no one knew the number of taxes, fees or assessments levied on maritime commerce or the amount of fees collected.

We were very pleased that the Committee asked the General Accounting Office (GAO) to prepare a baseline study of federal taxes on maritime trade. The GAO study identified twelve federal agencies levying a total of 117 diverse assessments for total collections of 11.9 billion dollars in fiscal year 1991. Eighty-nine percent of these collections go directly to the General Fund of the U.S. Treasury. Only eleven percent reimburse the agency providing the service or generate a port-related trust fund.

We have previously testified before this Subcommittee on the negative impact of trade taxes on U.S. ports, most recently on March 25, 1993. Needless to say, it is distressing to now have to fight yet another trade tax increase proposal. As Congress grapples with the difficult problem of reducing the deficit while encouraging economic recovery, we urge you to hold the line on taxes on trade. U.S. ports oppose any new or increased taxes, fees, or other levies on international trade or cruise passengers.



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Statement Of The
Passenger Vessel Association
for the

Subcommittee on Merchant Marine

Regarding

The Maritime Trust Fund Act of 1993
H.R. 2380

October 20, 1993

Chairman Lipinski, the Passenger Vessel Association submits this testimony on H.R. 2380, the Maritime Trust Fund Act of 1993, for consideration by the Subcommittee on Merchant Marine during hearings on October 6, 1993.

We respectfully request that our statement be made part of the official hearing record on this legislation.

The Passenger Vessel Association (PVA) is the national trade association for the domestic passenger vessel industry. Founded in 1973, PVA today represents more than 500 companies that own, operate and supply U.S.-flag passenger vessels. These include dinner cruise ships, tour and excursion boats, car and passenger ferries, private charter boats, casino gaming vessels, domestic overnight cruise boats, and environmental vessels. Member

formerly the National Association of Passenger Vessel Owners

companies of the association operate more than 1,200 vessels ranging in size from 7 to 4,000 passengers, and together carried in excess of 80 million passengers in 1992.

A number of these companies operate vessels that call at foreign ports and would be affected by the new five-percent ticket tax on foreign destination passenger cruises which is proposed by H.R. 2380. These vessels, all U.S. flag and Coast Guard certificated, sail primarily to ports of call in Canada, Mexico and the Caribbean. Clipper Cruise Line out of St. Louis, for example, runs the NANTUCKET CLIPPER from Rochester, New York up to Montreal and Quebec City in Canada. On the West Coast, the YORKTOWN CLIPPER has offered cruises which stop at both Canadian and Mexican ports. A quick calculation of the five percent ticket tax on these cruises shows an estimated impact in excess of \$1 million.

Similarly, Wilderness Cruises in Seattle, which operates the vessels SEA LION and SEA BIRD on ten voyages a year, writes that "five percent of revenue exceeds our profit margin even in a good year. We are already facing more and more competition from huge foreign-flag ships who can offer their product at much lower prices because of their lower operating costs and larger capacities. These foreign flag ships might be able to absorb this 5% tax. We can't."

This sentiment is shared universally by our member companies who operate vessels to foreign destinations. Ours are not the

large, foreign-flag cruise ships prominently featured in many advertisements. These are smaller American owned vessels, all operated in full accordance with U.S. law and paying U.S. income tax, harbor maintenance fees, Coast Guard inspection fees and other fees applicable to U.S. companies. They can ill afford another tax, especially one as significant as that proposed in H.R. 2380, and expect to continue in this business for long.

We are aware that there are some in Congress who share this concern. As a consequence, we would urge that if this Subcommittee feels compelled to move this legislation forward, it include an exemption for foreign destination voyages conducted on smaller passenger vessels. Specifically, we urge that any foreign destination voyage on a vessel with a passenger berthing capacity of 150 or fewer berths be exempt from the five-percent ticket tax proposed by this bill.

While we understand and appreciate your sincere concern over the health and future of the U.S. flag international liner fleet, for whom this legislation has been introduced, we respectfully suggest that taxing small American passenger vessels in order to provide a direct federal subsidy to that fleet is inappropriate. Moreover, it would spell the end to any effort to hoist a U.S.-flag atop a large foreign destination cruise ship. As you know, the American maritime community for years has attempted to gain a foothold in the larger vessel cruise market which, today, is dominated by foreign flag vessels. Representative Jolene Unsoeld,

in fact, has prepared ambitious draft legislation with this as the goal. If the ticket tax proposed in H.R. 2380 is applied to American vessels, however, it will be one more, possibly insurmountable, barrier to overcome in that quest.

The impact of this legislation on an incipient market for large U.S.-flag cruise ships is hypothetical. The impact of this legislation on existing small U.S.-flag cruise ships is not. If passed without amendment, this bill would take small passenger vessels out of the foreign destination market overnight. It would put an end to unique itineraries that are popular with the traveling public, profitable for the American owners, and mean jobs for dozens of people who need them. We urge that this bill not be passed or, if it is, that small passenger vessels be exempt from its provisions.

HR2380.02



THE
NATIONAL
INDUSTRIAL
TRANSPORTATION
LEAGUE

STATEMENT
ON BEHALF OF
THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE
BEFORE
MERCHANT MARINE SUBCOMMITTEE
U.S. HOUSE OF REPRESENTATIVES

ON
H.R. 2380, THE MARITIME TRUST FUND ACT

OCTOBER 20, 1993

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The League is the oldest and largest broad-based national association of shippers. League members include many of the largest industrial and commercial concerns in the United States, as well as numerous smaller shippers. The League also represents groups and associations of shippers in national and international transportation. In general, our members are substantial users of all modes of transportation, including ocean liner carriers. League members export and import substantial quantities of products from points all over the world, and therefore, would be adversely affected by the implementation of H.R. 2380, "The Maritime Trust Fund Act."

The purpose of our statement today is to provide the Subcommittee with the views of the shipping community relative to H.R. 2380. That bill, as originally introduced, would place a substantial burden on each and every import and export commercial cargo container with an excise tax of \$15 for 20 foot containers and \$30 for 40 foot containers. The aggregate economic burden on companies engaged in international commerce will be very substantial. The bill is expected to extract new taxes of approximately \$250 million annually.

Over the past year and a half, there has been considerable public debate over what can be done to continue the existence of the U.S. flag fleet. U.S. shippers strongly support efforts to maintain a U.S. flag presence, since it is in their best interest to see that these carriers can operate to service their needs. But a U.S. flag fleet must be economically able and operationally efficient to remain in business for the long term. While government support may be required in the interim to maintain the existence of U.S. flag ships, it must never be considered the final solution for the fleet's continued operations. The League strongly believes that a continued U.S. flag fleet depends on fundamental reforms to the 1984 Shipping Act. These changes, if enacted, would allow U.S. flag shipping to compete like any other business without continued government or private source assistance.

Briefly, the reforms we support include a minimum of economic regulation in the maritime industry, primary reliance on the forces of competition to encourage responsive and innovative pricing and service practices, and the use of contracts to provide rate and service stability to increase shipper and carrier productivity. The United States must have a modern and efficient ocean transportation system if

U.S. businesses are to have the opportunity to compete in the world marketplace. A truly efficient ocean transportation system must be one in which shippers and U.S. flag carriers are afforded the legal right to negotiate price and service levels on a fair basis. This environment will not only enhance the ability of U.S. industry to meet customer needs, but it will result in increased economic vitality to the U.S. carriers serving the U.S. trades.

League members are extremely concerned that the new tax proposed in H.R. 2380 will have an adverse effect upon the ability of the U.S. businesses to remain competitive in a global economy. Moreover, the timing of the proposed drain of revenue from businesses engaged in international commerce is particularly harmful. The United States and other countries currently are striving to "jump-start" the major economies of the world, both internally and externally, through their respective domestic policies and through cooperative global trade efforts such as the General Agreement on Tariffs and Trade ("GATT"). A new tax by the United States on international commerce is contrary to, and will hurt, a presently fragile economic recovery.

League members believe that a new tax would negatively impact the worldwide market share of goods supplied by American plants. Reduced market share in turn curtails plant spending, which then adversely affects U.S. wage earners and capital investment here at home. Due to the current economic situation, U.S. companies are working on smaller margins with business advantages marked by very fine lines. New taxes will stunt, not promote, economic growth by imposing additional costs which will contribute to a reduction in whatever competitive advantages that American companies now may have over foreign companies.

The League strongly supports the goal of a healthy U.S. merchant marine. However, direct subsidies are not an appropriate means for achieving this goal. The sound approach is to take action that will ensure that American steamship lines are operated economically and efficiently. Subsidizing one business at the expense of others is not sound fiscal or economic policy. The long-term health of our merchant marine will be best protected if Congress encourages ports, labor, and carriers to emulate how U.S. manufacturers have reacted to market forces by instituting operational efficiencies which have enabled them to be forceful merchants in the world marketplace.

A survey conducted by our International Transportation Committee in July gave us some rather important information on the impact of the proposed tax on U.S. industry. Although the survey naturally showed a rather dramatic increase in shippers annual freight transportation bills, it also indicated that most shippers would now more likely use a foreign flag carrier rather than a more preferable U.S. flag carrier due to limited resources in their transportation budgets. While many shippers said that while they would prefer to use an American flag carrier when possible (due to service, quality, and scheduling preferences) this would no longer be possible since the tax coupled with the U.S. flag carrier's higher cost would now force them to choose foreign flag carriers as the only practical alternative, in view of the finite resources available to them. Mr. Chairman, we submit that not only will this tax place a present and future burden on American industry, it will go further and result in substantial injury to an already crippled U.S. flag fleet.

Congress cannot artificially "prop-up" one industry at the expense of others. A direct tax subsidy will not only make it that much more difficult for U.S. companies vying with foreign industries to compete, but it will also eliminate any incentive for the U.S. fleet to become more efficient and competitive. In the long run, American carriers must become a more cost effective and service oriented industry and they cannot do this with more financial assistance. Now is the time to address the U.S. flag industry's central problem and that is the lack of a national maritime policy. This policy must be predicated on fostering innovation, efficiency and competitiveness rather than continued tax payer and consumer handouts.



October 4, 1993

The Honorable William O. Lipinski
Chairman
Subcommittee on Merchant Marine
Room 534
Ford House Office Building
2nd and D Streets, S.W.
Washington, DC 20515

Dear Congressman Lipinski:

Clipper Cruise Line would like to reiterate the ideas expressed in our letter of August 9, now that HR2380 is to be heard in Committee.

Clipper's headquarters is located in St. Louis, Missouri. We operate two American-flagged, U.S. Coast Guard certified passenger vessels on both domestic and international itineraries.

Clipper would be very seriously impacted by a five percent tax on foreign destination cruises. If five percent were added to all international cruises, the impact would be in excess of one million dollars. Our company would, quite simply, go out of business. If we pass on the tax to the passenger, then we are further adding to the hurdle we face competing with the foreign-flag cruise ships, whose economies of scale allow for much lower prices and operating costs.

We respectfully request that you reconsider your position on HR 2380. It is easy to understand that the target of this proposed legislation is the large foreign-flag fleet, but its effect would be to drive the American small passenger vessel industry out of business.

If I can provide any further information about our company, or the effect of HR2380 on us, please do not hesitate to contact me.

Sincerely,

Captain Gary E. Welsh
Vice President
Marine & Passenger Operations

GEW/jb

WILDERNESS CRUISES 7

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October 4, 1993

Honorable William Lipinsky, Chairman
 HOUSE OF REPRESENTATIVES
 SUBCOMMITTEE ON MERCHANT MARINE
 Ford House Office Building, Room #543
 2nd & "D" St. S.W.
 Washington, D.C. 20515

Re: H.R. 2380

Dear Chairman Lipinsky:

We would like to go on record opposing H.R. 2380. I respectfully request that this letter be made a part of the official record of the hearings scheduled for Wednesday, October 6, 1993 considering this legislation.

Wilderness Cruises operates two small U.S.-flag passenger vessels engaged in International as well as Domestic trade, and the provisions of this legislation would cause an economic hardship on our operation.

I understand that the Passenger Vessel Association will be presenting testimony at these hearings, and they support this position, as do we. We also support any proposed exemptions from this tax for vessels carrying 150 or fewer passengers.

Thank you for considering our position.

Respectfully,
 WILDERNESS CRUISES, INC.

Jeff C. Boyer
 Director of Port Operations

Cc: Washington State Congressional Delegation

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